HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
London CMA

CANADA MORTGAGE AND HOUSING CORPORATION

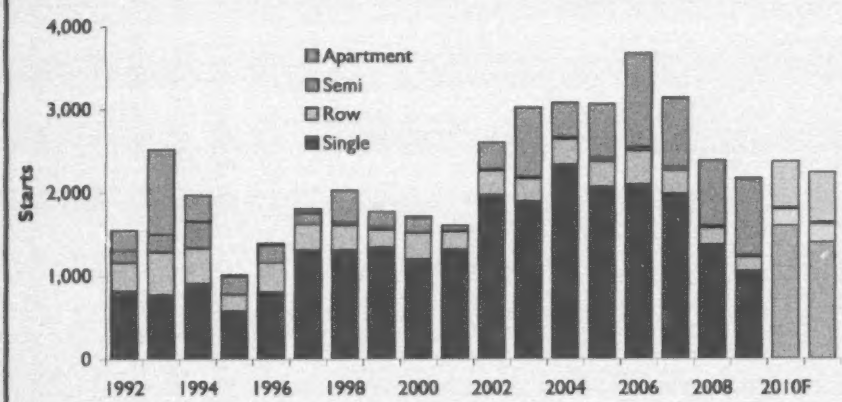
Date Released: Spring 2010

Market at a Glance

- Both the resale and new construction market will show improvement in 2010. Starts will total 2,370 while MLS® sales will hit 8,700. This strength will come at the cost of future activity, resulting in a volume slowdown in 2011 for both sectors in the London CMA.
- A balanced resale market will support modest price growth in 2010 and 2011.
- Employment growth will be steady at 1.5 per cent through 2010 to 2011, but the unemployment rate will remain high.

Figure 1

Single-Detached Starts Up in 2010



Source: CMHC forecasts

[1] The forecasts included in this document are based on information available as of April 23, 2010.

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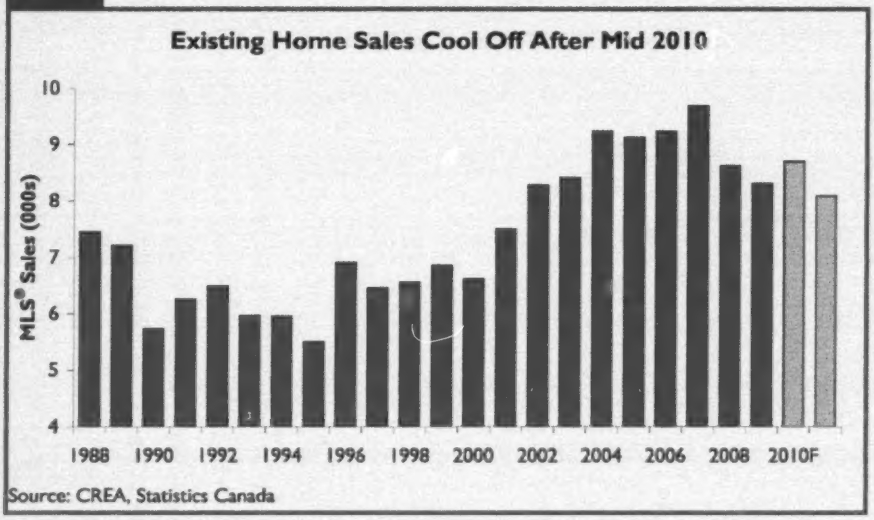
Figure 2



Resale Market

Higher Mortgage Rates Cool Off Existing Home Sales

First-time buyers will be the main catalyst behind a five per cent increase in MLS® sales in the London market in 2010. The strength will occur mainly in the first half, with sales easing later in the year and through 2011, as cost sensitive first time buyers are impacted by increasing mortgage rates and rising prices.

Despite some weakness in average incomes in 2009, the income required to buy a home declined due to low mortgage rates and flat prices. These conditions brought a significant number of first-time buyers into the market and a strong rebound in sales. The rebound in sales since this time in 2009 has come mainly from two groups. One group of buyers in late 2008 and the early part of 2009 had postponed their decision to buy because they were uncertain of their economic prospects, but by the latter half of 2009, they felt more comfortable entering the market. The other large group of buyers in early 2010 were bringing forward their purchases to avoid anticipated mortgage rate increases. The borrowing of this future demand will in effect limit the number of potential buyers in 2011 in the London market area.

Despite the expected increases in the income required to own a home in London in 2010 and 2011, it will remain much lower than the actual household income. Homeownership will continue to be accessible in London, contributing to demand for resale homes. However, some first time buyers may find it harder to qualify for homeownership due to rising carrying costs.

New listings will continue trending up in 2010. The increase in supply of listings in response to the strong price growth of the spring market will continue for the first half of the year and then gradually turn down in response to slowing price gains. In 2011 weaker price growth will offer less incentive to list and result in a modest decline in new listings.

An adequate supply of listings combined with moderating sales activity will result in a balanced market later this year and into next – dampening the rate of price growth. Strong first-time buyer activity will keep sales of properties in the lower price ranges robust. Consequently, the average resale price increase will be limited to just over two per cent in 2010 and over one per cent in 2011.

Figure 3

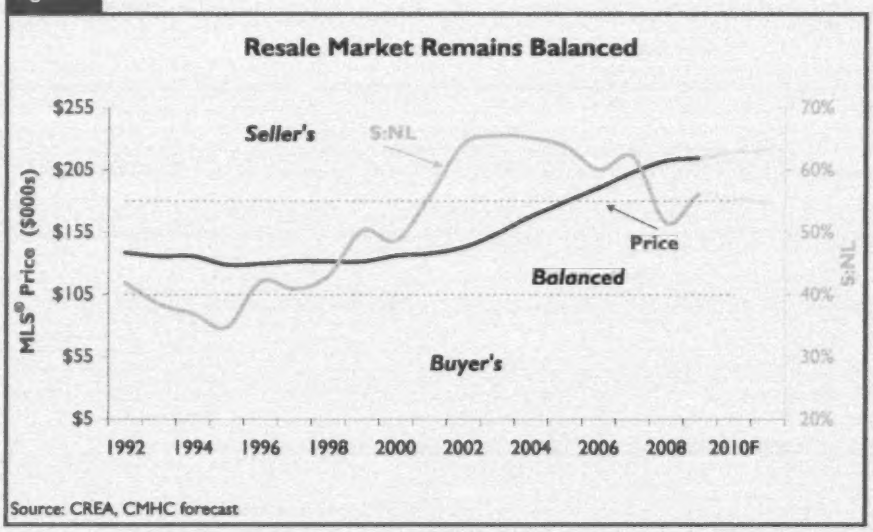
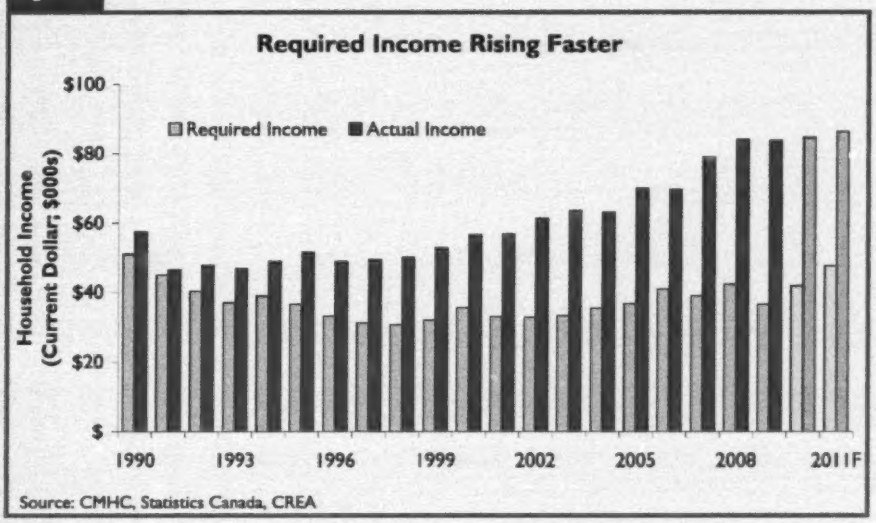


Figure 4



New Home Market

Higher Inventory Causes Detached Home Starts to Move Down

Construction of new homes will rise by nine per cent in 2010 in the London CMA before pulling back in 2011. A surge in single-detached construction of more than 50 per cent will be driven by builders replenishing inventory and consumers who are unable to satisfy their needs in the tight resale market but are eager to purchase before anticipated higher costs later in the year.

The inventory of detached homes declined throughout last year and builders are busy replenishing their stock. Many are building before sale in order to have stock ready to compete for buyers who are unable to find what they are looking for in the resale market. New homes are popular among professional health care workers in the London area and with job growth forecast to improve in this sector demand for single-detached homes will remain high. However, income growth in the healthcare sector is not keeping pace and some may look at slightly lower priced homes. The average price of a new single detached home will fall nearly three per cent in 2010 and remain flat after two years of strong price increases. An abundance of land in London will also keep the New Home Price Index in check for the next two years.

Rental apartment construction will be down this year. Many units are currently under construction or recently completed and available for rent. The rental vacancy rate is forecast to rise this year due to the extra supply in conjunction with the exodus of renters into the homeownership market. In 2011 the rate will turn down as fewer units come to market. Retirees who are having trouble selling their homes in the second half of 2010 will postpone their downsizing as well, which will slow their movement into rentals, causing higher vacancies. Some builders and developers may postpone their high-rise projects until 2011 and beyond when the vacancy rate starts to move lower.

Rising mortgage rates will result in some buyers looking for more affordable ownership options such as townhomes which will increase construction in both 2010 and 2011. This style is also attractive to the aging baby boomers looking for a more maintenance-free lifestyle.

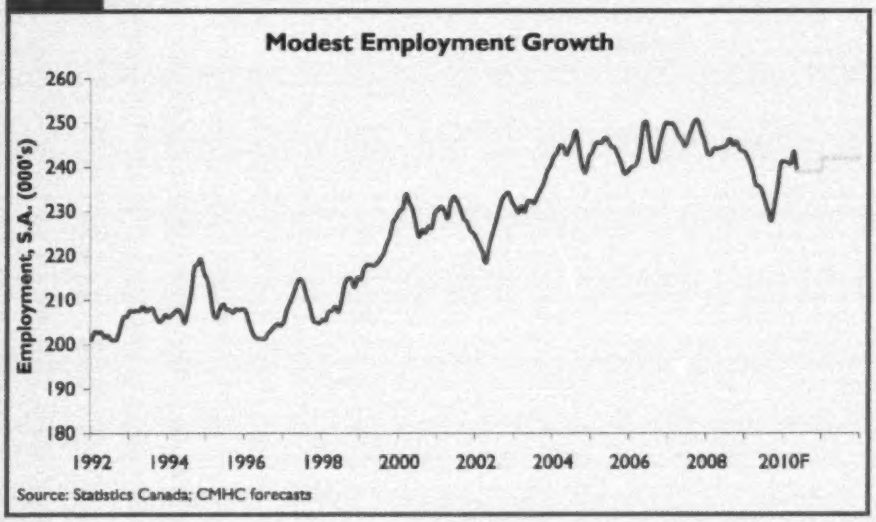
Local Economic Outlook

Improved Job Prospects

The outlook for job growth in the London CMA is positive yet slow, with a continuing high unemployment rate in 2010-2011. London's employment suffered a significant setback in 2009, dropping to the pre-expansion level in 2000. The manufacturing sector, hit hard by the high Canadian dollar and auto sector restructuring, will slowly begin to recover a portion of its lost jobs. The outlook for the automotive sector is already improving. Locally, the CAMI plant in Ingersoll has added a third shift due to the popularity of the Chevrolet Equinox produced there and the Toyota plant in Woodstock added a second shift. Also in manufacturing, General Dynamics Land Systems has secured an additional $2.2 billion contract with the U.S. army to build light armoured vehicles.

Most of the strength in London's job growth will be in the health care, finance, insurance and real estate and educational sectors – all sectors which fared comparatively well during the economic downturn. London is a regional health care hub and with many baby boomers entering retirement age and looking after their parents, there will be a steady demand for all aspects of health care. Wages for the health care sector have just begun to recover after trending down

Figure 5



for over a year, positive news for new residential construction for which this group has demonstrated a buying preference.

Full-time employment for the 45-64 year-age group in London is well on its way to matching its pre-recession peak, a good indication of strong repeat buying for the rest of the year, i.e., the mid to upper priced homes in either the new or resale market.

Migration

Net migration to the London CMA will remain stable in 2010 and 2011 at around the 2,500 mark. International migration will remain positive and an important feature of demand in the housing market. The inflow of intra-provincial migrants will be steady and will contribute to purchases of higher-end resale homes. Improving employment will help reduce the number of Londoners leaving for other provinces in search of work. International migrants tend to rent upon arrival for about three to four years before buying a home, and they tend to choose townhouse as their first ownership home in Canada. As for intra-provincial migrants, they tend to move into homeownership within one to two years of arrival in London, and many of them buy larger, more expensive homes in the outskirts of the city.

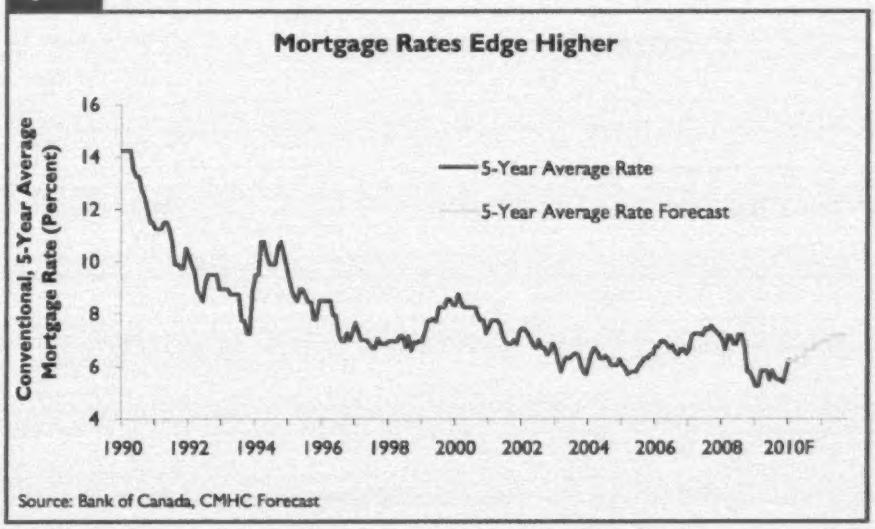
Mortgage Rate Outlook

The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. Looking ahead, we expect that short-term interest rates will begin to rise in the second half of 2010.

With the overnight rate expected to increase in the coming months, mortgage rates have begun to rise. According to CMHC's base case scenario, posted mortgage rates will gradually increase throughout the course of 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate is assumed to be in the 3.6-4.8 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2-6.7 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 5.0-6.0 per cent range, while three and five-year posted mortgage rates are forecast to be in the 5.6-7.2 per cent range.

Rates could, however, increase at a faster pace if the economy recovers more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Figure 6



Forecast Summary London CMA Spring 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	9,686	8,620	8,314	8,700	4.6	8,100	-6.9
MLS® New Listings	15,590	16,769	14,795	15,700	6.1	14,600	-7.0
MLS® Average Price ($)	202,908	212,092	214,510	219,500	2.3	222,000	1.1
New Home Market							
Starts:							
Single-Detached	1,983	1,369	1,056	1,600	51.5	1,400	-12.5
Multiples	1,158	1,016	1,112	770	7.7	840	4.6
Semi-Detached	42	24	12	20	-16.7	20	0.0
Row/Townhouse	278	205	169	200	18.3	220	10.0
Apartments	838	787	931	550	-40.9	600	9.1
Starts - Total	3,141	2,385	2,168	2,370	9.3	2,240	-5.5
Average Price ($):							
Single-Detached	290,342	320,039	341,898	333,000	-2.6	334,700	0.5
Median Price ($):							
Single-Detached	266,000	295,900	307,900	320,000	3.9	322,000	0.6
New Housing Price Index (% chg.)	3.6	3.5	1.4	1.0	-	1.0	-
Rental Market							
October Vacancy Rate (%)	3.6	3.9	5.0	5.6	0.6	4.0	-1.6
Two-bedroom Average Rent (October) ($)	816	834	896	920	-	950	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	4.23	0.20	5.56	1.34
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	6.20	0.57	7.06	0.86
Annual Employment Level	247,400	244,300	235,700	239,000	0.0	242,000	0.4
Employment Growth (%)	0.7	-1.3	-3.3	1.3	-	1.3	-
Unemployment rate (%)	6.1	7.0	9.9	9.8	-	8.9	-
Net Migration [1]	2,369	2,659	2,600	2,500	-	2,600	-

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), London & St. Thomas Association of Realtors (LSTAR)®, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2009 migration data is forecasted

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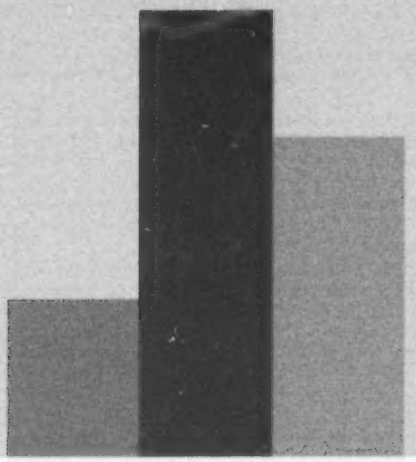

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